

Memorandum

To: Mayor Donnalee Lozeau

From: John L. Griffin 

Date: April 15, 2013

Re: Wastewater Fund Rate/Revenue Requirements Analysis

Background

As of June 30, 2012, the Wastewater Fund had a net asset balance of \$5,044,891. The Wastewater Enterprise Fund is projected to spend approximately \$10.6 million in FY13 which will be offset by anticipated revenues of \$10.6 million. The operating expenditures are expected to increase to \$12.0 million in FY14, necessitating a proposed increase in wastewater user fees of 15% for FY14. For the average residential customer, the proposed annual increase will be approximately \$41.48.

Attached for your review is the April 2013 Wastewater Fund Rate/Revenue Requirements Analysis. The analysis includes a review of the Wastewater Fund for the period FY13 through FY19. The last rate analysis was completed in March 2011 and resulted in an approved revenue increase of 15%. Current issues impacting the Wastewater Fund include:

- EPA Consent Order
- Resulting in approximately \$70 million in Capital Projects
- Aging infrastructure
- Continued deferment of State Grant Funding

Recommendation

The recommendation resulting from the current analysis is the approval of a 15% increase in the wastewater rates for FY14.

Revenue Analysis

The wastewater rates are comprised of two components – volumetric and demand. It is recommended that rate increases be applied to both components:

	Recommended Rate Increase	Average Annual Residential Billing Increase
FY14	15%	\$41.48

Increasing both rate components spreads the rate increase more evenly among all customers and also provides the City with a more consistent source of demand rate revenue. The demand charge is more constant and provides for improved revenue forecasting. The volumetric component is volatile and could result in revenues coming in lower than forecast. The average annual residential bill is currently \$274.60. If the proposed rates are approved, the new average annual residential bill will be \$316.08.

Below is a comparison of user fees with the proposed 15% increase for Nashua residents to similar communities in New Hampshire:

<u>Community Comparison</u>					
	Nashua	Derry	Manchester	Concord	Keene
Volume Rate	\$2.05	\$2.98	\$3.47	\$4.13	\$5.36
Fixed Charge -	\$111.08	\$142.64	\$111.40	\$148.68	\$114.20
Avg Residential Yrly Billing	\$316.80	\$425.74	\$445.60	\$545.16	\$800.00

The Wastewater Fund receives most of its revenue from user fees. The fund has also received State Aid Grants (SAG) towards the cost of wastewater projects. The SAG program was deferred during FY09 and as a result, the City of Nashua has not received any SAG grants on new completed projects since the deferral was put in place. The State continues to defer funding of State Aid Grants for new projects. The deferment reduces the City's anticipated grant funds for wastewater related projects by approximately \$20 million. The SAG program was designed to pay for up to 20% of the cost of qualified wastewater projects. The deferral of the SAG program has and will continue to negatively impact the Wastewater Enterprise Fund balance and cash flow. With several major projects completed, underway, or in the pipeline, the deferment of the SAG program puts an additional strain on the fund and the need for additional user fees. To be conservative, the Wastewater Fund Rate/Revenue Requirements Analysis does not include any future SAG revenue at this time. Any reinstatement by the State of the SAG program would be welcomed and would help to mitigate necessary rate increases in future fiscal years.

Cost Analysis

The Analysis includes the cost of operations, several capital projects, as well as an updated capital equipment replacement schedule. Capital equipment replacement costs for the next three fiscal years are projected as follows:

- FY13 \$2.3 million
- FY14 \$1.6 million
- FY15 \$2.6 million

The City of Nashua is under an Administrative Consent Order from the EPA (Consent Decree) to reduce combined sewer overflows to the Nashua River and Merrimack River. The cost of the components of the Consent Decree totaled approximately \$70 million at the time of this study. The City continues towards the completion of the Consent Decree capital projects. The larger Consent Decree capital projects should be substantially complete in FY15.

Capital Project Financing

The Analysis also includes debt financing needs. During the next three fiscal years bonding proceeds are projected to be as follows:

- FY13 \$14.0 million
- FY14 \$12.5 million
- FY15 \$13.5 million

Moving forward with the recommended revenue increases and debt financing should allow the City to:

- Fund normal operating costs;
- Meet the EPA Consent Decree deadlines;
- Adequately fund reserves for future equipment needs;
- Fund improvements to infrastructure for normal operations; and
- Pay for the increase in debt service payments during the next several fiscal years.